

Mr. Harold D. Branton, Administrator
Grand Strand Healthcare, Inc.
Post Office Box 1175
Myrtle Beach, South Carolina 29578

Re: AC# 3-GRA-J7 – Grand Strand Healthcare, Inc.

Dear Mr. Branton:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through September 30, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

GRAND STRAND HEALTHCARE, INC.

MYRTLE BEACH, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1998
AC# 3-GRA-J7**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 23, 1998

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Grand Strand Healthcare, Inc., for the contract periods beginning October 1, 1998 and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Grand Strand Healthcare, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Grand Strand Healthcare, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
October 23, 1998

The South Carolina Department of Health and Human Services has not received formal approval from the United States Health Care Financing Administration (HCFA) of Attachment 4.19D of the South Carolina State Plan under Title XIX (Medicaid) for the contract periods beginning October 1, 1998, as required by regulations of the United States Department of Health and Human Services (HHS). The effects of any adjustments that may be necessary if the State Plan, as submitted, is modified to receive the approval of HCFA cannot presently be determined.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the South Carolina Department of Health and Human Services and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Thomas L. Wagner, Jr., CPA
State Auditor

GRAND STRAND HEALTHCARE, INC.

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1998
AC# 3-GRA-J7

	Beginning <u>10/01/98</u>
Interim reimbursement rate (1)	\$82.81
Adjusted reimbursement rate	<u>82.71</u>
Decrease in reimbursement rate	\$ <u><u>.10</u></u>

(1) Interim reimbursement rate obtained from the South Carolina
Department of Health and Human Services

GRAND STRAND HEALTHCARE, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Periods Beginning October 1, 1998
AC# 3-GRA-J7

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$38.14	\$46.64	
Dietary		9.66	9.93	
Laundry/Housekeeping/Maint.		<u>7.77</u>	<u>8.11</u>	
Subtotal	<u>\$4.53</u>	55.57	64.68	\$55.57
Administration & Med. Rec.	<u>\$4.03</u>	<u>6.87</u>	<u>10.90</u>	<u>6.87</u>
Subtotal		62.44	<u>\$75.58</u>	62.44
<u>Costs Not Subject to Standards:</u>				
Utilities		2.28		2.28
Special Services		-		-
Medical Supplies & Oxy.		4.19		4.19
Taxes and Insurance		1.40		1.40
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$70.31</u>		70.31
Inflation Factor (3.60%)				2.53
Cost of Capital				7.87
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.46
Cost Incentive				4.53
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(5.24)
Minimum Wage Add On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$82.71</u>

GRAND STRAND HEALTHCARE, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-GRA-J7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,227,706	\$ 4,379 (4)	\$ 9,533 (5)	\$1,222,552
Dietary	306,323	44,989 (3)	41,564 (7)	309,748
Laundry	54,064	-	-	54,064
Housekeeping	105,737	1,509 (6)	2,537 (7)	104,709
Maintenance	91,051	1,257 (6)	2,099 (7)	90,209
Administration & Medical Records	225,944	643 (6)	6,329 (7)	220,258
Utilities	70,607	3,330 (4) 973 (6)	1,743 (7)	73,167
Special Services	-	-	-	-
Medical Supplies & Oxygen	134,421	-	-	134,421
Taxes & Insurance	45,123	594 (6)	991 (7)	44,726
Legal Fees	-	-	-	-
Cost of Capital	247,826	499 (2) 3,014 (6) <u>5,908 (8)</u>	156 (1) 4,699 (7)	252,392
Subtotal	2,508,802	67,095	69,651	2,506,246

GRAND STRAND HEALTHCARE, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-GRA-J7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	19,799	-	-	19,799
Non-Allowable	(12,947)	156 (1) 12,835 (4) 9,533 (5) <u>59,962 (7)</u>	499 (2) 7,990 (6) 5,908 (8) <u></u>	55,142 <u></u>
Total Operating Expenses	<u>\$2,515,654</u>	<u>\$149,581</u>	<u>\$84,048</u>	<u>\$2,581,187</u>
TOTAL PATIENT DAYS	<u>32,051</u>	<u>-</u>	<u>-</u>	<u>32,051</u>
TOTAL BEDS	<u>88</u>			

GRAND STRAND HEALTHCARE, INC.
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-GRA-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 4,372	
	Other Equity	5,863	
	Nonallowable	156	
	Fixed Assets		\$ 10,235
	Cost of Capital		156
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	499	
	Nonallowable		499
	To adjust depreciation and amortization expense to comply with cost of capital policy State Plan, Attachment 4.19D		
3	Dietary	44,989	
	Meals on Wheels Revenue		44,989
	To reverse Provider offset of Meals on Wheels revenue HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
4	Nursing	4,379	
	Utilities	3,330	
	Nonallowable	12,835	
	Vending Income		14,768
	Beauty and Barber Income		5,776
	To reverse Provider offset of vending and beauty and barber income HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
5	Nonallowable	9,533	
	Nursing		9,533
	To disallow beauty and barber salaries and related fringe benefits HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

GRAND STRAND HEALTHCARE, INC.
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-GRA-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Housekeeping	1,509	
	Maintenance	1,257	
	Administration	643	
	Utilities	973	
	Taxes and Insurance	594	
	Cost of Capital	3,014	
	Nonallowable		7,990
	To reverse DH&HS adjustment to remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
7	Nonallowable	59,962	
	Dietary		41,564
	Housekeeping		2,537
	Maintenance		2,099
	Administration		6,329
	Utilities		1,743
	Taxes and Insurance		991
	Cost of Capital		4,699
	To remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
8	Cost of Capital	5,908	
	Nonallowable		5,908
	To adjust cost of capital to allowable State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$159,816</u>	<u>\$159,816</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

GRAND STRAND HEALTHCARE, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-GRA-J7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.1814</u>
Deemed Asset Value (Per Bed)	34,069
Number of Beds	<u>88</u>
Deemed Asset Value	2,998,072
Improvements Since 1981	56,468
Accumulated Depreciation at 9/30/97	<u>(440,865)</u>
Deemed Depreciated Value	2,613,675
Market Rate of Return	<u>0.067</u>
Total Annual Return	175,116
Return Applicable to Non-Reimbursable Cost Centers	(3,800)
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>2,901</u>
Allowable Annual Return	174,217
Depreciation Expense	82,359
Amortization Expense	515
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(4,699)</u>
Allowable Cost of Capital Expense	252,392
Total Patient Days (Actual)	<u>32,051</u>
Cost of Capital Per Diem	\$ <u><u>7.87</u></u>